

BOSTON GAS COMPANY
TEST YEAR ENDED DECEMBER 31, 2002

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Boston Gas Company
Revenue Deficiency Summary
Test Year Ended December 31, 2002

	<u>Per Books</u>	<u>Adjustments</u>	<u>Adjusted Books</u>	<u>Proposed Rate Increase</u>	<u>After Rate Increase</u>	<u>Proposed % Increase</u>
1 Revenues	639,110,602	(26,905,851)	612,204,751	61,304,367	673,509,118	9.59%
2 Cost Of Gas	345,823,335	(46,891,270)	298,932,065		298,932,065	
3 Operation & Maintenance Expense	154,113,164	51,321,446	205,434,610	1,115,739	206,550,349	
4 Depreciation	52,397,887	2,435,632	54,833,519		54,833,519	
5 Amortization	3,804,972	1,395,056	5,200,028		5,200,028	
6 Taxes Other Than Income	17,401,314	2,258,848	19,660,162		19,660,162	
7 Interest on Customers Deposits	0	41,258	41,258		41,258	
8 Operating Income Before						
9 Income Taxes	65,569,930	(37,466,821)	28,103,109	60,188,627	88,291,736	
10 Income Taxes			1,174,149	23,608,989	24,783,138	
11 Operating Income After						
12 Income Taxes			26,928,960	36,579,638	63,508,598	
13 Rate Base			626,935,813		626,935,813	
14 Rate Of Return				4.30%		10.13%

Boston Gas Company
Revenue Deficiency Summary
Test Year Ended December 31, 2002

1	<u>Revenue Requirement Calculation</u>	
2	Rate Base	626,935,813
3	Rate of Return	10.13%
4	Required Return	63,508,598
5	Operating Income After Taxes	26,928,960
6	Shortfall	36,579,638
7	Revenue Requirement Factor	1.676
8	Revenue Requirement	61,304,367

Boston Gas Company
Operating Revenue Summary
Test Year Ended December 31, 2002

	<u>Description</u>	<u>2002 Test Year</u>	<u>Adjustments</u>	<u>Adjusted</u>
1	Firm Revenues:			
2	Billed Sales	562,161,615	1,366,333	563,527,948
3	Unbilled Sales	15,926,040	(15,926,040)	0
4	Billed Transportation	47,484,996	0	47,484,996
5	Total Firm Revenues	625,572,651	(14,559,707)	611,012,944
6	Other Operating Revenues	1,447,389	(255,582)	1,191,807
7	Energy Efficiency Revenue	495,356	(495,356)	0
8	DSM Incentive	1,058,800	(1,058,800)	0
9	Non-Firm Revenues	10,536,406	(10,536,406)	0
10	Total Gas Operating Revenues	13,537,951	(12,346,144)	1,191,807
11	Total Operating Revenues	639,110,602	(26,905,851)	612,204,751

Boston Gas Company
Adjustments to Gas Operating Revenues
Test Year Ended December 31, 2002

1	Adjustments to Gas Operating Revenues	
2	Firm Sales /Revenue Adjustments:	
3	Weather Revenue Adjustment	5,520,760
4	Customer Charge Adjustment.....	(543,219)
5	Billing Day Adjustment.....	(164,726)
6	Termination of Sithe contract.....	(3,446,482)
7	Firm Sales/Revenue Adjustments	<u>1,366,333</u>
8	Adjustment for Unbilled Sales/Revenue.....	(15,926,040)
9	Annualized Late Payment Charges.....	638,418
10	Weather Stabilization Adjustment.....	2,970,000
11	PBR Revenue Adjustment (1).....	<u>(3,864,000)</u>
12	subtotal	<u>(255,582)</u>
13	Energy Efficiency Revenue.....	(1,554,156)
14	Non-Firm Revenues.....	<u>(10,536,406)</u>
15	Adjustments to Operating Revenues	<u>(26,905,851)</u>

1. Revenue recorded in 2002 applicable to prior years
due to Supreme Court Decision in March 2002

Boston Gas Company
Cost of Service Summary
Test Year Ended December 31, 2002

	<u>Description</u>	<u>Per Books</u>	<u>Adjustments</u>	<u>Adjusted</u>
1	Cost of Gas-Retail	324,520,135	0	324,520,135
2	Cost of Gas-Unbilled	11,244,090	(11,244,090)	0
3	-Non-Firm	6,186,618	(6,186,618)	0
4	-Broker Revenues	4,236,326	(4,236,326)	0
5	-Non Firm Margin Retention	(641,891)	641,891	0
6	-DSM Incentive	(78,800)	78,800	0
7	-ECS Costs	356,857	(356,857)	0
8	CGA Recoverable Costs	0	(25,588,070)	(25,588,070)
9		0	0	0
<hr/>				
10	Total Cost of Gas	345,823,335	(46,891,270)	298,932,065
11	Other Operating and Maintenance Expenses	154,113,164	51,321,446	205,434,610
12	Uncollectible on Proposed Rate Increase			1,115,739
<hr/>				
13	Total Operating & Maintenance Expenses	499,936,499	4,430,176	505,482,414
<hr/>				
14	Depreciation Expense	52,397,887	2,435,632	54,833,519
15	Amortization of Utility Plant	3,804,972	1,395,056	5,200,028
16	Amortization of Goodwill	0	0	0
17	Taxes Other Than Income	17,401,314	2,258,848	19,660,162
18	Federal Income & Mass Franchise Tax	4,149,419	20,633,719	24,783,138
19	Interest on Customer Deposits	0	41,258	41,258
20	Return on Rate Base	62,262,496	1,246,102	63,508,598
<hr/>				
21	Total Cost of Service	639,952,587	32,440,791	673,509,118

Boston Gas Company
Summary of Operating and Maintenance Expense Adjustments to Cost of Service
Test Year Ended December 31, 2002

Adjustments to Operating and Maintenance Expenses
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	<u>Description of Adjustment</u>	<u>Amount of Adjustment</u>
1	Wages - Union (Page 6)	2,830,121
2	Wages - Non-Union (Page 7)	1,408,642
3	Incentive Compensation (Page 8)	2,241,721
4	Incentive Compensation (Continued on Page 9)	297,372
5	Dental Expense (Page 10)	51,432
6	Health Care Expense (Page 11)	1,128,502
7	Pension (Page 12)	11,855,419
8	Insurance (Page 13)	556,705
9	Property Leases (Page 14)	1,041,262
10	Gain on Sale of Utility Property (Page 15)	(40,496)
11	Postage Increase (Page 16)	124,491
12	Strike Contingency Expense (Page 17)	80,466
13	Incremental Costs Adjustments (Page 18)	7,256,297
14	Severance Adjustment (Page 19)	250,000
15	Rate Case Expense (Page 20)	333,058
16	CGA Recoverable Costs (Page 21)	25,588,070
17	Bad Debt Expense (Page 22)	(4,299,361)
18	Lobbying Expenses (Page 23)	(13,247)
19	Advertising Expense (Page 24)	(641,204)
20	Fines/Penalties (Page 25)	(71,150)
21	Adjustments to Service Company Expenses (Page 26)	(1,445,365)
22	Charitable Contributions (Page 27)	0
23	Inflation Adjustment (Page 28)	2,788,709
24	Total Operating and Maintenance Expense Adjustments	<hr/> 51,321,446 <hr/>

Boston Gas Company
Adjustments to Operating Expenses
Test Year Ended December 31, 2002

Operating Expenses: Wages- Union

1	Direct Union Wages Charged to Cost of Service	<u>36,077,241</u>
2	Total Direct Union Wages	<u>36,077,241</u>
3	Allocated Union Wages Charged to Cost of Service	<u>10,651,958</u>
4	Total Allocated Union Wages	<u>10,651,958</u>
5	<u>Boston Gas Union Adjustment</u>	
6	Direct Union 2002 Increase @ .73%	263,364
7	Direct Union 2003 Increase @ 3.0%	1,090,218
8	Direct Union 2004 Increase @ 2.47%	924,541
9	Total Direct Union Adjustment	<u>2,278,123</u>
10	<u>Service Company Union Adjustment</u>	
11	Allocated Union 2002 Increase @.95%	101,194
12	Allocated Union 2003 Increase @ 3.54%	380,662
13	Allocated Union 2004 Increase @ .63%	<u>70,143</u>
14	Total Allocated Union Adjustment	<u>551,998</u>
15	Total Union Wage Adjustment	<u>2,830,121</u>

Boston Gas Company
Adjustments to Operating Expenses
Test Year Ended December 31, 2002

Operating Expenses: Wages- Non-Union
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1	Direct Non-Union Wages Charged to Cost of Service	4,965,989
2	Total Direct Non-Union Wages	4,965,989
3	Allocated Non-Union Wages Charged to Cost of Service	23,738,538
4	Less : Officers Salaries	(2,598,644)
5	Total Allocated Non-Union Wages	21,139,894
6	<u>Boston Gas Non-Union Adjustment</u>	
7	Direct Non-Union 2002 Increase @.67%	33,272
8	Direct Non-Union 2003 Increase @ 3.50%	174,974
9	Total Direct Non-Union Adjustment	208,246
10	<u>Service Company Non-Union Adjustment</u>	
11	Allocated Non-Union 2002 Increase @.88%	186,031
12	Allocated Non-Union 2003 Increase @ 4.33%	923,413
13	Allocated Officers 2004 Increase @ 3.5%	90,953
14	Total Allocated Non-Union Adjustment	1,200,396
15	Total Non-Union Wage Adjustment	1,408,642

Boston Gas Company
Adjustments to Operating Expenses
Test Year Ended December 31, 2002

Operating Expenses: Incentive Compensation
--

1	Accrual of 2001 Incentive Compensation	
2	Reversed in 2002	2,097,330
3	Test Year 2002 Incentive Compensation	
4	Accrual Recorded	(1,125,741)
5	2002 Incentive Compensation at Target Level	<u>1,111,875</u>
6	Test Year Adjustment	<u>2,083,464</u>
7	<u>Service Company Incentive Compensation</u>	
8	Test Year 2002 Servco Incentive Comp. Accrual	17,305,603
9	2002 Incentive Compensation at Target Level	<u>18,300,930</u>
10		995,327
11	% to Boston	15.90%
12	Test Year Adjustment	<u>158,257</u>
13	Total Incentive Compensation Adjustment	<u>2,241,721</u>

Boston Gas Company
Adjustments to Operating Expenses
Test Year Ended December 31, 2002

Operating Expenses: Transition Base Pay To Variable Pay
--

1	New England Employees Variable Pay Increase in Service Company	434,343
2	% of Service Company to Boston Gas	<u>68.10%</u>
3	Amount To Boston Gas	<u>295,788</u>
4	% To O&M	71.36%
5	Adjustment	<u>211,192</u>
6	Boston Gas Employees Direct	129,985
7	% O & M	66.30%
8	Adjustment	<u>86,180</u>
10	Total Variable Pay Adjustment for Boston Gas	<u><u>297,372</u></u>

Boston Gas Company
Adjustments to Operating Expenses
Test Year Ended December 31, 2002

Operating Expenses: Dental Expense

	Boston Gas Dental Direct	Service Co. Dental Allocated
1 Test Year 2002 Dental Expense in O&M	697,825	279,689
2 2003 Dental Increase %	7.17%	0.50%
3 Annualized Dental Expense	747,859	281,087
4 Adjustment	50,034	1,398
5 Total Dental Expense Adjustment		<u>51,432</u>

Boston Gas Company
Adjustments To Operating Expenses
Test Year Ended December 31, 2002

Operating Expenses: Health Care Expense

	Boston Gas Health Care Direct	Service Co. Health Care Allocated
1 Test Year 2002 Health Care Expense in O&M	5,837,978	2,952,934
2 2003 Health Care Increase %	13.21%	12.10%
3 Annualized Health Care Expense	<u>6,609,175</u>	<u>3,310,239</u>
4 Adjustment	771,197	357,305
5 Total Health Care Expense Adjustment		<u>1,128,502</u>

Boston Gas Company
Adjustments To Operating Expenses
Test Year Ended December 31, 2002

Operating Expenses: Pension Expense

	<u>Description</u>	<u>Direct Amount</u>	<u>Allocated Amount</u>	<u>Total Amount</u>
1	Pension Plan Contributions (3 Year Average)			<u>21,153,361</u>
2	Operations and Maintenance Expense	17,180,551	904,884	18,085,435
3	2002 Pension Expense			<u>6,230,016</u>
4	Total Pension Expense Adjustment			<u>11,855,419</u>

Boston Gas Company
Adjustment To Operating Expenses
Test Year Ended December 31, 2002

Operating Expenses: Insurance Expense

	<u>Policy</u>	<u>2002 Premium Expense</u>	<u>Allocated % To Boston Gas</u>	<u>2002 Expense</u>
1	Travel Accident	71,056	9.80%	6,963
2	Captive- Gen. Liability	810,225	79.00%	640,078
3	Excess Liability	3,070,839	9.80%	300,942
4	Excess D & O Liability	1,069,725	9.80%	104,833
5	Property	3,096,154	12.80%	396,308
6	Terrorism	501,755	12.80%	64,225
7	Blanket Crime	52,490	9.80%	5,144
8	Total	8,672,244		1,518,493

	<u>Policy</u>	<u>Annualized Premium Costs *</u>	<u>Boston Percentage</u>	<u>Annualized Expense</u>
9	Travel Accident	0	9.80%	0
10	Captive- Gen. Liability	1,068,690	79.00%	844,265
11	Excess Liability	3,464,802	9.80%	339,551
12	Excess D & O Liability	1,361,707	9.80%	133,447
13	Property	5,881,175	12.80%	752,790
14	Terrorism	0	12.80%	0
15	Blanket Crime	52,490	9.80%	5,144
16	Total	11,828,864		2,075,197

17 **Total Insurance Expense Adjustment** **556,705**

*Reflects latest Insurance Premiums
for 2002 through 2003

BOSTON GAS COMPANY
Adjustments to Operating Expenses
Test Year Ended December 31, 2002

Operating Expenses: Property Leases
--

		<u>Test Year</u> <u>2002 Expense</u>	<u>Lease</u> <u>Expense</u> <u>Annualized</u>	<u>Lease</u> <u>Expense</u> <u>Adjustment</u>
1	LNG Tank Lease	1,378,544	1,584,000	205,456
2	One Beacon Street, Boston	502,565	0	(502,565)
3	Norwood, Ma	222,248	0	(222,248)
4	Waltham, Ma.	0	1,560,619	1,560,619
5	Total Property Lease Adjustment	<u>2,103,357</u>	<u>3,144,619</u>	<u>1,041,262</u>

BOSTON GAS COMPANY
Adjustments to Operating Expenses
Test Year Ended December 31, 2002

Operating Expenses: Gain on Sale of Utility Property
--

1	Sale Proceeds	1,436,570
2	Less: Net Book Value of Building and Equipment	<u>(156,870)</u>
3	Net Proceeds	1,279,700
4	% Of Proceeds to Utility Property	212,430
5	16.60%	
6	Book Value of Land	(9,950)
7	Net Gain on Sale of Utility Property	<u>202,480</u>
8	Amortized Over Five Years	<u><u>(40,496)</u></u>

BOSTON GAS COMPANY
Adjustments to Operating Expenses
Test Year Ended December 31, 2002

Operating Expenses: Postage Increase

1	Postage Fees Annualized	2,548,084
2	Test Year 2002 Postage Expense	<u>2,423,592</u>
3	Total Postage Adjustment	<u>124,491</u>

BOSTON GAS COMPANY
Adjustments to Operating Expenses
Test Year Ended December 31, 2002

Operating Expenses: Strike Contingency Costs
--

- | | | |
|---|---|----------------------|
| 1 | Strike Contingency Costs Deferred | <u>321,865</u> |
| 2 | Length of Union Contract | <u>4 Years</u> |
| 3 | Total Strike Contingency Costs Adjustment | <u><u>80,466</u></u> |

BOSTON GAS COMPANY
Adjustments to Operating Expenses
Test Year Ended December 31, 2002

Operating Expenses: Incremental Cost Adjustment
--

1	Colonial Gas Incremental Cost	
2	Adjustment per DTE	
3	Corporate Administration Costs	2,125,812
4	Finance Costs	1,018,898
5	Human Resources Costs	588,058
6	Information Technology Costs	2,768,425
7	Rates & Regulatory Affairs	174,065
8	Environmental Engineering	113,441
9	Gas Supply & Planning	191,527
10	Legal	<u>276,071</u>
11	Total Incremental Costs Adjustment	<u>7,256,297</u>

BOSTON GAS COMPANY
Adjustments to Operating Expenses
Test Year Ended December 31, 2002

Operating Expenses: Severance Adjustment
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1	Test Year 2002 Reversal of Severance Accrual	<u>250,000</u>
2	Recorded on the Books in November 2000	
3	Total Severance Adjustment	<u>250,000</u>

Boston Gas Company
Adjustments To Operating Expenses
Test Year Ended December 31, 2002

Operating Expenses: Rate Case Expense
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1	Legal Services	803,749
2	Productivity Study on Price Cap Component of PBR Plan	441,220
3	Research and Preparation of Cost of Capital Analysis	39,394
4	Lead Lag Study	30,000
5	Other Associated Costs (Temporary Help, Office Supplies, etc.)	350,925
		<u>1,665,289</u>
6	Amortization Over PBR Period	<u>5</u>
7	Annualized Rate Case Amortization Expense Adjustment	<u><u>333,058</u></u>

BOSTON GAS COMPANY
Adjustments to Operating Expenses
Test Year Ended December 31, 2002

Operating Expenses: Costs Recovered through CGA
--

1	Production & Storage and Gas Procurement Costs	15,324,998
2	Bad Debt Costs	<u>10,263,072</u>
3	Total CGA Recoverable Costs Adjustment	<u>25,588,070</u>

Boston Gas Company
Adjustments To Operating Expenses
Test Year Ended December 31, 2002

Operating Expenses: Bad Debt Expense

	<u>Description</u>	<u>Firm Billed Revenue</u>	<u>Net Write-Offs</u>	<u>% of Write-Offs To Revenue</u>
	Year:			
1	2000	620,826,000	11,571,000	1.86%
2	2001	841,760,000	10,708,000	1.27%
3	2002	610,873,094	15,572,000	2.55%
4	Total	2,073,459,094	37,851,000	
5	Three Year Weighted Average Of			
6	Net Write-Offs As A % Of Firm Billed Revenue			1.83%
7	Test Year Normalized Firm Sales:			
8	Test Year Firm Gas Revenues - Billed		610,873,094	
9	Add: Firm Sales Adjustments		1,366,333	
10	Test Year Normalized Firm Sales			612,239,427
11	Total Adjusted revenue			612,239,427
12	Allowable bad debt expenses (line 17 x line27)			11,203,982
13	Less: Test Year Bad Debt Expense 2002			(15,503,342)
14	Total Bad Debt Expense Adjustment			<u><u>(4,299,361)</u></u>

Boston Gas Company
Adjustments To Operating Expenses
Test Year Ended December 31, 2002

Operating Expenses: Lobbying Expense

1	Lobbying Expense in Test Year 2002 for Company Employee	(11,000)
2	AGA Dues Attributable to Lobbying	(2,247)
3	Lobbying Expenses in Test Year 2002 for Servco	<u>(131,095)</u>
4	Total	(144,342)
5	Less: Expense Recorded Below the Line	<u>131,095</u>
6	Total Lobbying Expense Adjustment	<u>(13,247)</u>

Boston Gas Company
Adjustments To Operating Expenses
Test Year Ended December 31, 2002

Operating Expenses: Advertising Expense
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1	Test Year Advertising Expense	<u>1,751,879</u>
2	<u>Adjustments to Advertising Expense</u>	
3	Image	(75,986)
4	Informational/Miscellaneous Advertising	(37,661)
5	Corporate Image Advertising	<u>(527,557)</u>
		(641,204)
6	Total Advertising Expense Adjustment	<u>(641,204)</u>

BOSTON GAS COMPANY
Adjustments to Operating Expenses
Test Year Ended December 31, 2002

Operating Expenses: Fines/Penalties
--

1	Fines/Penalties in Test Year 2002	<u>(71,150)</u>
2	Total Fines/Penalties Adjustment	<u><u>(71,150)</u></u>

BOSTON GAS COMPANY
Adjustments to Operating Expenses
Test Year Ended December 31, 2002

Operating Expenses: Adjustments to Service Company Expenses

1	<u>Adjustments to Service Company Expenses Allocated to Boston Gas:</u>	
2	Servco Charges	(125,358)
3	Brand Strategy	(548,968)
4	Corporate Sponsored Membership	(759,474)
5	Strike Contingency included in O&M	<u>(11,565)</u>
6	Total Service Company Expense Adjustment	<u><u>(1,445,365)</u></u>

BOSTON GAS COMPANY
Adjustments to Operating Expenses
Test Year Ended December 31, 2002

Operating Expenses: Charitable Contributions

1	Charitable Contributions Made During The Test Year	303,268
2	Contributions Recorded Below the Line in the Test Year	<u>(303,268)</u>
3	Charitable Contributions Adjustment	<u><u>0</u></u>

BOSTON GAS COMPANY
Adjustments to Operating Expenses
Test Year Ended December 31, 2002

Operating Expenses: Inflation Adjustment

	<u>Description</u>	<u>Amount</u>
1	Test Year Residual O&M Expense Base	
2	Total Test Year Operations and Maintenance Expense	154,113,164
3	<u>Less Test Year Amounts for:</u>	
4	Wages - Union (Page 6)	(46,729,199)
5	Wages - Non-Union (Page 7)	(26,105,883)
6	Incentive Compensation (Page 8)	2,097,330
7	Dental Expense (Page 10)	(977,514)
8	Health Care Expense (Page 11)	(8,790,912)
9	Pensions (Page 12)	(20,000,642)
10	OPEB	(6,198,509)
11	Insurance (Page 13)	(1,518,493)
12	Property Leases (Page 14)	(2,103,357)
13	Postage Fees (Page 16)	(2,423,592)
14	Incremental Accounting Adjustments (Page 18)	7,256,297
15	Severance (Page 19)	250,000
16	Costs Recovered Through CGA (Page 21)	25,588,070
17	Bad Debts (Page 22)	(15,503,342)
18	Lobbying Expense (Page 23)	(13,247)
19	Advertising (Page 24)	(1,751,879)
20	Fines/Penalties (Page 25)	(71,150)
21	Adjustments to Service Company Expenses (Page 26)	(1,445,365)
22	FICA Taxes included in O&M (Page 33)	<u>(2,553,516)</u>
23	Residual O&M Expenses Subject to Inflation	53,118,261
24	Increase in GDIPD From Midpoint Of The Test Year	
25	To The Midpoint of Rate Year	<u>5.25%</u>
26	Total Inflation Adjustment	<u><u>2,788,709</u></u>

BOSTON GAS COMPANY
Adjustments to Operating Expenses
Test Year Ended December 31, 2002

Operating Expenses: Inflation Increase In GDPIPD

1 Calculation of Inflation Rate:

2	GDPIPD Index - Midpoint of Test Year 2002	1.085
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3	GDIPD Index - Midpoint of Rate Year 2004	1.142
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4	Inflation Factor % (line 7 divided by line 5 less 100%)	5.25%
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BOSTON GAS COMPANY
Adjustments to Operating Expenses
Test Year Ended December 31, 2002

Depreciation Expense: Year-End Plant at 2002 Depreciation Rate

	<u>Description</u>	<u>Amount</u>
1	Annualized Depreciation on Year End Utility Plant	54,833,519
2	LESS: Test Year 2002 Depreciation:	
3	General (Account 403)	52,397,887
		<hr/>
4	Annualization Depreciation Adjustment	<u><u>2,435,632</u></u>

BOSTON GAS COMPANY
Adjustments to Operating Expenses
Test Year Ended December 31, 2002

Amortization of Leasehold Improvements and Intangible Plant Amortization

	<u>Description</u>	<u>2002 Expense</u>	<u>Annual Expense</u>	<u>Adjustment</u>
1	Leasehold Improvements	161,562	171,108	9,546
2	Customer System	1,180,804	2,361,607	1,180,803
3	Other Software	2,462,606	2,684,655	222,049
	Incremental Customer System Costs			
4	Allocated to Essex		(179,482)	(179,482)
	Non-Incremental Software Costs Allocated			
5	to Colonial		162,140	162,140
6	Test Year Amortization Amount	3,804,972		
7	Annualized Amortization Expense		5,200,028	
8	Total Leasehold Improvement and			
9	Intangible Plant Amortization Adjustment			1,395,056

Boston Gas Company
Adjustments To Taxes Other Than Income
Test Year Ended December 31, 2002

Taxes Other Than Income: A. Property Tax Expense

1	Annualized Property Taxes	15,718,022
2	Less: Non-Utility & Held For Future Use Property Taxes	(88,004)
3	Adjusted Annualized Property Taxes	15,630,018
4	Property Tax Expense in 2002	<u>(13,679,000)</u>
5	Total Property Tax Adjustment	<u><u>1,951,018</u></u>

Boston Gas Company
Adjustments to Taxes Other Than Income
Test Year Ended December 31, 2002

Taxes Other Than Income: FICA Taxes
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Direct Union Payroll Taxes Charged To Cost of Service	3,148,524
Direct Non-Union Payroll Taxes Charged To Cost of Service	<u>433,391</u>

Total Direct Payroll Taxes Union and Non-Union	<u><u>3,581,915</u></u>
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Allocated Union Payroll Taxes Charged To Cost of Service	791,591
Allocated Non-Union Payroll Taxes Charged To Cost of Service	<u>1,761,925</u>

Total Allocated Payroll Taxes Union and Non-Union	<u><u>2,553,516</u></u>
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Direct Union Adjustment	15,393
Direct Non-Union Adjustment	<u>191,118</u>

Total Direct Payroll Tax Adjustment	<u><u>206,511</u></u>
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Allocated Union Adjustment	37,979
Allocated Non-Union Adjustment	<u>63,340</u>

Total Allocated Payroll Adjustment	<u><u>101,319</u></u>
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Total Payroll Tax Adjustment	<u><u>307,830</u></u>
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Boston Gas Company
Adjustments to Taxes Other Than Income
Test Year Ended December 31,2002

FICA Taxes Details

	2002 Amount	Adjustment %	Adjustment
Direct Union			
Medicare	595,085	6.31%	37,662
Social Security Taxes	2,424,675	6.31%	153,456
Fed. Unemployment Taxes	31,333	0.00%	0
Mass. Unemployment Taxes	97,431	0.00%	0
NYS Unemployment Taxes	0	0.00%	0
Total	3,148,524		191,118
Direct Non-Union			
Medicare	81,913	4.19%	3,442
Social Security Taxes	333,754	3.57%	11,951
Fed. Unemployment Taxes	4,313		0
Mass. Unemployment Taxes	13,411		0
NYS Unemployment Taxes	0		0
Total	433,391		15,393
Allocated Union			
Medicare	143,278	5.18%	7,415
Social Security Taxes	590,526	5.18%	30,563
Fed. Unemployment Taxes	34,830	0.00%	0
Mass. Unemployment Taxes	8,708	0.00%	0
NYS Unemployment Taxes	14,249	0.00%	0
Total	791,591		37,979
Allocated Non-Union			
Medicare	318,908	5.14%	16,398
Social Security Taxes	1,314,397	3.57%	46,942
Fed. Unemployment Taxes	77,525	0.00%	0
Mass. Unemployment Taxes	19,381	0.00%	0
NYS Unemployment Taxes	31,714	0.00%	0
Total	1,761,925		63,340
Total Payroll Tax Adjustment	6,135,431		307,830

Boston Gas Company
Adjustments to Interest on Customer Deposits
Test Year Ended December 31, 2002

Interest on Customer Deposits

1	Customer Deposit Balance at December 31, 2002	1,562,785
2	Interest Rate to be Applied in 2003 per DTE	2.64%

3	Interest on Customer Deposits	41,258

Adjustment	<u><u>41,258</u></u>
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Boston Gas Company
Computation of Federal Income and Mass Franchise Tax
Test Year Ended December 31, 2002

	Income Tax Schedule		Adjusted Before		Proposed		After	
			Rate Increase		Rate Increase		Rate Increase	
1	Operating Income Before							
2	Income Taxes							
3			28,103,109		60,188,627		88,291,736	
4								
5	Less: Interest Costs							
6	Rate Base	626,935,813						
7	Weighted Cost Of Debt	3.92%	24,575,884				24,575,884	
8	Net Income		3,527,225		60,188,627		63,715,852	
9	Massachusetts Tax	6.50%	229,270		3,912,261		4,141,530	
10	Federal Taxable Income		3,297,955		56,276,366		59,574,322	
11	Federal Tax	35.00%	1,154,284		19,696,728		20,851,013	
12	Amortization Of Excess Deferred Income Taxes (per DTE 93-60)		(209,405)				(209,405)	
13	Net Federal and Mass Income Tax		1,174,149		23,608,989		24,783,138	

Boston Gas Company
Return on Rate Base and Capital Structure Summary
Test Year Ended December 31, 2002

<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>	<u>Column E</u>	<u>Column F</u>
<u>Description</u>	<u>Capital Structure 31-Dec-02</u>	<u>Elimination of Goodwill Adjustments</u>		<u>Adjusted Capital Structure</u>	<u>Capital Structure Percentage</u>
Long Term Debt	210,000,000			210,000,000	32.01%
Preferred Stock	13,840,295		(1,500,000)	12,340,295	1.88%
Common Equity	574,063,675	(140,284,582)		433,779,093	66.11%
Acquisition Debt	650,000,000	(650,000,000)		0	
Total Capitalization	1,447,903,970	(790,284,582)	(1,500,000)	656,119,388	100.00%

	<u>Imputed Capital Structure</u>	<u>Cost</u>	<u>Cost of Capital Col B x Col C</u>
Long Term Debt	48.16%	8.14%	3.92%
Preferred Stock	1.84%	6.42%	0.12%
Common Equity	50.00%	12.18%	6.09%
Total Capitalization			
Weighted Avg. Cost of Capital			10.13%
Rate Base (Page 38)			626,935,813
Return on Rate Base			63,508,598

- (1) Acquisition Premium
(2) Sinking Fund Adjustment

BOSTON GAS COMPANY
Long Term Debt Summary
WEIGHTED AVERAGE COST OF DEBT

Medium Term Notes

<u>ISSUE MATURITY</u>	<u>AMOUNT OUTSTANDING</u>	<u>EFFECTIVE RATE</u>	<u>INTEREST EXPENSE</u>	<u>AMORTIZATION OF DEBT EXPENSE</u>	<u>DEBT EXPENSE</u>	<u>EFFECTIVE INTEREST RATE</u>
06/01/11	10,000,000	8.95%	895,000	7,968	902,968	9.03%
12/15/19	7,000,000	8.97%	627,900	3,924	631,824	9.03%
01/05/05	15,000,000	8.87%	1,330,500	15,504	1,346,004	8.97%
12/15/10	10,000,000	9.68%	968,000	3,756	971,756	9.72%
12/01/20	5,000,000	9.75%	487,500	1,272	488,772	9.78%
02/22/11	10,000,000	9.00%	900,000	3,744	903,744	9.04%
07/05/22	10,000,000	8.33%	833,000	2,496	835,496	8.36%
07/10/18	10,000,000	8.33%	833,000	2,880	835,880	8.36%
07/10/17	8,000,000	8.33%	666,400	2,304	668,704	8.36%
09/01/21	15,000,000	9.05%	1,357,500	3,756	1,361,256	9.08%
01/15/14	5,000,000	6.93%	346,500	1,872	348,372	6.97%
01/15/16	5,000,000	6.93%	346,500	1,704	348,204	6.96%
04/01/16	10,000,000	6.93%	693,000	6,480	699,480	6.99%
01/15/19	10,000,000	6.93%	693,000	3,000	696,000	6.96%
01/15/24	6,000,000	6.98%	418,800	1,500	420,300	7.01%
01/24/14	2,000,000	8.50%	170,000	540	170,540	8.53%
11/30/06	12,000,000	8.59%	1,030,800	5,000	1,035,800	8.70%
10/01/25	20,000,000	7.25%	1,450,000	56,724	1,506,724	7.53%
10/01/25	5,000,000	7.25%	362,500	14,172	376,672	7.53%
10/15/15	5,000,000	7.10%	355,000	21,216	376,216	7.52%
11/30/12	10,000,000	6.80%	680,000	49,032	729,032	7.29%
12/02/13	5,000,000	6.80%	340,000	23,028	363,028	7.26%
12/01/23	10,000,000	6.95%	695,000	30,144	725,144	7.25%
12/01/24	5,000,000	6.95%	347,500	14,544	362,044	7.24%
	210,000,000	8.01%	16,827,400	276,560	17,103,960	8.14%

Boston Gas Company
Rate Base Summary
Test Year Ended December 31, 2002

Rate Base Calculation

	<u>Description</u>	<u>Per Books</u>	<u>Adjustments</u>	<u>Adjusted</u>
1	<u>Additions:</u>			
2	Utility Plant (DTE Return Page 18)	2,003,202,253	(813,987,223)	1,189,215,030
3	Other Materials & Supplies (DTE Return Page 18)	4,753,952	(844,806)	3,909,146
4	Prepayments	0	0	0
5	Working Capital	11,011,853	5,201,638	16,213,491
6	Total Additions	2,018,968,058	(809,630,391)	1,209,337,667
7	<u>Deductions:</u>			
8	Work in Progress (DTE Return Page 18)	(10,569,449)	0	(10,569,449)
9	Plant Held for Future Use (DTE Return Page 18)	(597,003)	0	(597,003)
10	Reserves:		0	
11	Deferred Taxes	(98,647,844)	0	(98,647,844)
12	Depreciation (DTE Return Page 13)	(448,985,690)	0	(448,985,690)
13	Amortization of Intangible Plant (DTE Return Page 13)	(42,804,360)	22,665,437	(20,138,923)
14	Unamortized Pre-1971 ITC (DTE Return Page 33)	(1,713,838)	0	(1,713,838)
15	Customer Contributions (DTE Return Page 9)	(50,855)	0	(50,855)
16	Customer Deposits (DTE Return Page 9)	(1,562,785)	0	(1,562,785)
17	Unclaimed Checks	(135,467)	0	(135,467)
18	Total Deductions	(605,067,291)	22,665,437	(582,401,854)
19	Total Rate Base	1,413,900,767	(786,964,954)	626,935,813

Boston Gas Company
Adjustments To Rate Base
Test Year Ended December 31, 2002

Adjustments to Rate Base

1	Adjustments to Utility Plant:	
2	Less: Goodwill	(812,950,019)
3	Less: Net Leasehold Improvements - One Beacon	(136,291)
4	Less: Net Book Value of Concord Property Sold	(132,859)
5	Less: CRIS Allocation to Essex	(1,705,080)
6	Add: Non Incremental Software Costs To Colonial	937,026
7	Total Adjustment To Utility Plant	<u>(813,987,224)</u>
8	Adjustment To Amortization of Intangible Plant :	
9	Goodwill Amortization (DTE Return Page 13)	22,665,437
10	Total Adjustment To Amortization Reserve	<u>22,665,437</u>

BOSTON GAS COMPANY
Adjustments to Rate Base
Test Year Ended December 31, 2002

Adjustments to Rate Base: Other Materials & Supplies

<u>Month</u>	<u>Amount</u>
1 December 2001	3,397,399
2 January 2002	3,386,814
3 February 2002	3,514,516
4 March 2002	3,612,554
5 April 2002	4,122,402
6 May 2002	4,167,575
7 June 2002	4,413,573
8 July 2002	4,598,782
9 August 2002	4,155,214
10 September 2002	3,977,822
11 October 2002	3,728,183
12 November 2002	3,701,778
13 December 2002	4,042,285
14 Total	50,818,897
15 13 Month Average	3,909,146
16 Balance @ December 31, 2002 (DTE Return Page 24)	4,753,952
17 Total Rate Base Adjustment	(844,806)

Boston Gas Company
Adjustments To Rate Base
Test Year Ended December 31, 2002

Adjustments to Rate Base: Working Capital
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	<u>Description</u>	<u>Direct Test Year</u>	<u>Allocated Test Year</u>	<u>2002 Test Year</u>
	<u>Working Capital Components</u>			
1	Operating Expenses - Other than Cost of Gas	68,582,188	85,530,976	154,113,164
2	Subtotal - Operations & Maintenance Expenses	68,582,188	85,530,976	154,113,164
3	Factor x Operations & Maintenance Expenses	42.73/365	12.73/365	
4	Test Year Working Capital	8,028,813	2,983,039	11,011,853
5	Adjustment			
6	Operating Expense Adjustments - Other than Cost of Gas	41,035,755	11,401,426	52,437,180
7	Factor x Operations & Maintenance Expenses	42.73/365	12.73/365	
8	Test Year Working Capital Adjustment	4,803,994	397,644	5,201,638
9	Total Test Year Adjusted Working Capital			16,213,491

SCHEDULE 1

REVENUE REQUIREMENT CALCULATION

	PER COMPANY	COMPANY ADJUSTMENT	DTE ADJUSTMENT	PER ORDER
COST OF SERVICE				
Total O&M Expense	505,482,414	0	0	0
Depreciation & Amortization Exp.	60,033,547	0	0	0
Taxes Other Than Income Taxes	19,660,162	0	0	0
Income Taxes	24,783,138	0	0	0
Interest on Customer Deposits	41,258	0	0	0
Amortization of ITC	0	0	0	0
Return on Rate Base	63,508,598	0	0	0
Total Cost of Service	673,509,118	0	0	0
OPERATING REVENUES				
Operating Revenues	639,110,602	0	0	0
Revenue Adjustments	(26,905,851)	0	0	0
Total Operating Revenues	612,204,751	0	0	0
Revenue Deficiency	61,304,367	0	0	0
Total Increase in Revenues as of December 1, 2002	61,304,367	0	0	0

SCHEDULE 2

OPERATIONS AND MAINTENANCE EXPENSES

	PER COMPANY	COMPANY ADJUSTMENT	DTE ADJUSTMENT	PER ORDER
Purchased Gas Expense	345,823,335	0	0	0
Other O&M Expense	154,113,164	0	0	0
O&M Expense Per Books	499,936,499	0	0	0

ADJUSTMENTS TO PURCHASED GAS EXPENSE:

Gas Cost Adjustment	(46,891,270)	0	0	0
Total Adj. To Purchased Gas Expense	(46,891,270)	0	0	0

ADJUSTMENTS TO OTHER O&M EXPENSE

2002 Union Wage & Salary Expense	2,830,121	0	0	0
2002 Management & Salary Expense	1,408,642	0	0	0
Incentive Compensation Expense	2,539,093	0	0	0
Dental Expense	51,432	0	0	0
Health Care Expense	1,128,502	0	0	0
Pension Expense	11,855,419	0	0	0
Insurance Expense	556,705	0	0	0
Property Leases	1,041,262	0	0	0
Gain on Sale of Utility Property	(40,496)	0	0	0
Postage Increase Expense	124,491	0	0	0
Strike Contingency Expense	80,466	0	0	0
Incremental Costs	7,256,297	0	0	0
Severance Expense	250,000	0	0	0
Rate Case Expense	333,058	0	0	0
CGA Recoverable Costs	25,588,070	0	0	0
Bad Debt Expense	(4,299,361)	0	0	0
Lobbying Expense	(13,247)	0	0	0
Advertising Expense	(641,204)	0	0	0
Fines and Penalties	(71,150)	0	0	0
Service Company Expenses	(1,445,365)	0	0	0
Charitable Contribution Expense	0	0	0	0
Inflation	2,788,709	0	0	0
Total Adj. To Other O&M Expense	51,321,446	0	0	0

Total Adjustments To O&M Expense	51,321,446	0	0	0
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Adjusted Total O&M Expense 504,366,675

SCHEDULE 3

**DEPRECIATION AND AMORTIZATION
EXPENSES**

	PER COMPANY	COMPANY ADJUSTMENT	DTE ADJUSTMENT	PER ORDER
Depreciation Expense	54,833,519	0	0	0
Amortization Expense	5,200,028	0	0	0
Total Depreciation & Amort. Exp.	60,033,547	0	0	0

SCHEDULE 4

RATE BASE AND RETURN ON RATE BASE

	PER COMPANY	COMPANY ADJUSTMENT	DTE ADJUSTMENT	PER ORDER
Utility Plant in Service	1,189,215,030	0	0	0
LESS:				
Reserve For Depreciation	(448,985,690)	0	0	0
Net Utility Plant in Service	740,229,340	0	0	0
ADDITIONS TO PLANT:				
Cash Working Capital	16,213,491	0	0	0
Materials and Supplies	3,909,146	0	0	0
Total Additions To Plant	20,122,637	0	0	0
DEDUCTIONS FROM PLANT:				
Work in Progress	(10,569,449)			
Plant Held for Future Use	(597,003)			
Reserve for Deferred Inc. Taxes	(98,647,844)	0	0	0
Amortization of Intangible Plant	(20,138,923)			
Unamortized ITC-Pre1971	(1,713,838)	0	0	0
Customer Contributions	(50,855)			
Customer Deposits	(1,562,785)	0	0	0
Unclaimed Funds	(135,467)	0	0	0
Total Deductions From Plant	(133,416,164)	0	0	0
RATE BASE	626,935,813	0	0	0
COST OF CAPITAL	10.13%			
RETURN ON RATE BASE	63,508,598			

SCHEDULE 5

COST OF CAPITAL

	← PER COMPANY →			
	PRINCIPAL	PERCENTAGE	COST	RATE OF RETURN
Long-Term Debt	210,000,000	48.16%	8.14%	17,094,000
Preferred Stock	12,340,295	1.84%	6.42%	792,247
Common Equity	433,779,093	50.00%	12.18%	52,834,294
Total Capital	656,119,388	100.00%		70,720,540

Weighted Cost of
Debt
Preferred Stock
Common Equity
Cost of Capital

3.92%
0.12%
6.09%
10.13%

	← PER COMPANY-ADJUSTED →			
	PRINCIPAL	PERCENTAGE	COST	RATE OF RETURN
Long-Term Debt	0	0.00%	0.00%	
Preferred Stock	0	0.00%	0.00%	
Common Equity	0	0.00%	0.00%	
Total Capital	0	0.00%	0.00%	0

Weighted Cost of
Debt
Preferred Stock
Common Equity
Cost of Capital

	← PER COMPANY-ORDER →			
	PRINCIPAL	PERCENTAGE	COST	RATE OF RETURN
Long-Term Debt	0	0.00%	0.00%	
Preferred Stock	0	0.00%	0.00%	
Common Equity	0	0.00%	0.00%	
Total Capital	0	0.00%	0.00%	0

Weighted Cost of
Debt
Preferred Stock
Common Equity
Cost of Capital

SCHEDULE 6

CASH WORKING CAPITAL

	PER COMPANY	COMPANY ADJUSTMENT	DTE ADJUSTMENT	PER ORDER
Other O&M Expense	206,550,344	0	0	0
Total Amount Subject to Cash Working Capital Allowance	206,550,344	0	0	0
Cash Working Capital Allowance	16,213,491			
(Composite Total times 28/365)				

SCHEDULE 7

TAXES OTHER THAN INCOME TAXES

	PER COMPANY	COMPANY ADJUSTMENT	DTE ADJUSTMENT	PER ORDER
FICA TAXES	3,743,257	0	0	0
Federal Unemployment Taxes	35,646	0	0	0
State Unemployment Taxes	110,842	0	0	0
Use Tax	17,161			
Excise Tax	123,238			
Property Taxes	15,630,018	0	0	0
Total Taxes Other Than Income	19,660,162	0	0	0

SCHEDULE 8

INCOME TAXES

	PER COMPANY	COMPANY ADJUSTMENT	DTE ADJUSTMENT	PER ORDER
Rate Base	626,935,813	0	0	0
Return on Rate Base	63,508,598	0	0	0
LESS:				
Interest Expense	24,575,884	0	0	0
	24,575,884			
Amortization of Excess Deferred Incomes Taxes	209,405			
Taxable Income Base	38,723,309	0	0	0
Taxable Income		0	0	0
(Taxable Income Base times 1.6454)	63,715,852			
Mass Franchise Tax (6.5 Percent)	4,141,530	0	0	0
Federal Taxable Income	59,574,322	0	0	0
Federal Income Tax Calculated	20,851,013	0	0	0
Total Income Taxes Calculated	24,992,543	0	0	0
Amort Excess Deferred Inc. Taxes	(209,405)	0	0	0
Total Income Taxes	24,783,138	0	0	0

SCHEDULE 9

REVENUES

	PER COMPANY	COMPANY ADJUSTMENT	DTE ADJUSTMENT	PER ORDER
Operating Revenues per Books	639,110,602	0	0	0
Revenue Adjustments				
Weather Adjustment	5,520,760	0	0	0
Customer Charge Adjustment	(543,000)			
Billing Day Adjustment	(164,726)	0	0	0
Termination of Slithe contract	(3,446,482)	0	0	0
Unbilled Sales	(15,926,040)	0	0	0
Annualized Late Payment Charges	638,418			
Weather Stabilization Adjustment	2,970,000			
PBR Revenue Adjustment	(3,864,000)			
ECS Revenues	(1,554,156)	0	0	0
Non-Firm Revenues	(10,536,406)	0	0	0
Total Revenue Adjustments	(26,905,632)	0	0	0
Adjusted Total Operating Revenues	612,204,970	0	0	0